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## CHINESE NATIONALISTS SEEK FURTHER AMERICAN SUPPORT . . . Page 14

Confident of continuing American support, the Chinese Nationalists have remained calm in the face of recent Chinese Communist threats to "liberate" Formosa. The new Nationalist administration nevertheless has pursued policies to ensure retention of, and possibly an increase in, such support.

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## THE SOVIET WORLD

The Communists in the Far East continue to avoid incidents with the West. While the Chinese Communists have persisted in their belligerent propaganda for the "liberation" of Formosa, they have taken precautions to stay clear of American naval vessels or Chinese Nationalist craft blockading the coast.

The USSR also observed caution in commenting on recent statements regarding Formosa. The Soviet press confined itself to printing, without comment, both the full text of Chou En-lai's aggressive statement and President Eisenhower's remarks regarding the US commitment. Although a number of recent articles in the Soviet press have tried to prove the usual Soviet propaganda theme of the illegal use of Formosa by the United States against Communist China, this is the first time that Moscow has taken up the subject of the island's "liberation."

The Yangtze River, which at Hankow reached a level 56 inches above the 1931 record, was reported to be falling as of 23 August. The current damage is tentatively estimated to be about two thirds that of 1931, amounting to at least one billion dollars. About 40,000 square miles of cultivated land may have been flooded, and crop losses may exceed ten million tons. Between ten and twenty million people probably have been displaced. It is expected that famine will hit large areas of Central China next winter and spring. The Soviet Union still is not known to have made even a token offer of assistance to Communist China.

East European flood damage is estimated to have been moderate. Press comment on the American food offer in East Germany, Czechoslovakia and Hungary--the three Satellite countries which said they would accept assistance--has been cordial but meager. Main emphasis has been on sovereignty and equality with other countries. The Prague radio asserted that the offer and its acceptance showed that friendly relations between the Orbit and capitalist regimes were possible, unless prevented by imperialist aggressors. Accompanying radio comment tied in receipt of the food with stepped-up East-West trade. The East German and Hungarian press have emphasized the role of their national Red Cross societies in arranging distribution of food with representatives of the League of Red Cross Societies.

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Within the Soviet Union, Komsomolskaya Pravda, the leading party-sponsored newspaper for Soviet youth, continued last week to spearhead the propaganda drive against religion. While reflecting a restrained official attitude toward the subject, the newspaper continued to stress that inspired teaching, particularly of natural science, is the best antidote for the religious disease. At the same time, the paper asked for thoughtfulness and tact in carrying out the campaign lest the believers become offended.

The stress on atheistic propaganda and instruction is also receiving high priority at the annual preschool conferences of teachers that are held in late August throughout the USSR. A Pravda editorial for 23 August reminded the teachers that the materialistic outlook among children is strongest and the instruction in natural science is especially faulty in the rural areas. As a remedy, the Presidium of the All-Union Society for the Dissemination of Political and Scientific Knowledge recommended that "scientific-atheistic lectures" be conducted regularly in the villages by the local teachers, doctors, and agriculturists. Lectures will also be given in the cities on such topics as the universe, laws of biology, and the morale, life, and health of the Soviet people.

Not all of the propaganda, however, has been characterized by such a restrained tone. A new pamphlet, "Those Who Crept Out of Darkness," contains an extremely vitriolic attack against the papacy. This tract, which is being widely circulated, is also characterized by its pronounced anti-American overtones.

There are other suggestions that the antireligious campaign is being broadened to associate the survival of "religious superstitions" with other "decadent remnants" such as drunkenness, hooliganism and "small private ownership morality and psychology."

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## THE BACKGROUND OF VARGAS' RESIGNATION AND SUICIDE

The resignation and suicide of Brazil's president Vargas on 24 August occurred against a background of political instability which has as its immediate cause the discontent of the military and other conservative elements with the way Vargas and his clique ran the government. Underlying this, however, is a series of continuing, critical economic problems and a dearth of sound political leadership.

The succession of Vice President Café Filho may temporarily improve the domestic political atmosphere, but will not necessarily provide solutions to the underlying problems. It will not alter Brazil's orientation toward the United States.

The current crisis was set off by one of the scandals which had become a hallmark of the Vargas administration. The alleged involvement of Vargas' brother and son and his personal guard in the attempted assassination on 5 August of an anti-Vargas newspaper publisher, which resulted in the death of an air force major, came at a time of intense public anxiety over stalled coffee sales and rapid weakening of the currency. Politically, it rocked the nation.

Key figures in the armed forces, already concerned over the graft, Communist influence and economic confusion in the Vargas administration, saw the incident as a final challenge to their constitutional role as ultimate guardians of the nation's welfare. Their pressure, combined with the public statements of Brazil's two living ex-presidents, finally proved a match for Vargas' previously successful techniques of dividing and distracting the opposition.

The suicide of the 71-year-old ex-dictator may preserve for his large following the cultivated myth of the indispensable man and great humanitarian, but it will not eliminate the political and economic problems fostered by his rule. Foreign exchange and inflation crises have been chronic in postwar Brazil because of the country's limited and overpriced exports, its rapid industrial expansion, and its unrealistic social legislation. They have been aggravated, however, since 1951 under the Vargas government, which encouraged an atmosphere of administrative confusion and political dickering with economic problems. The political leaders needed to clarify and solve these problems have not yet emerged from the party organizations, all of which are relatively new and fluid and have in one way or another been manipulated by Vargas.

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The new president, Joao Café Filho, faces not only these basic problems but congressional and state elections in early October, in which, until this week, the only issue was Vargas himself. An opportunistic professional politician, Café Filho appears to have lived down his dealings with the Communists in the 1945 election and has recently made speeches favoring private enterprise and the entry of foreign capital. Because of his background and because of the Vargas crisis, the armed forces undoubtedly will keep a close watch on the new president and will be in a position to enforce their views. Since the military leaders themselves are pro-American, domestic political changes are unlikely to bring any alteration in Brazil's international orientation.

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## VIEWS VARY ON SCOPE OF PROJECTED SOUTHEAST ASIAN PACT

The conference opening in Manila on 6 September to form a Southeast Asian pact may reflect considerable disagreement on the terms and scope of such an alliance. Opinions on the military and economic responsibilities a pact might entail vary considerably among the participating powers.

Thailand and the Philippines, the only two Southeast Asian nations which will be represented, may prove the most determined in their desire for mutual security commitments. Thailand, which before Geneva had expressed enthusiasm for a pact, recently qualified its position by stating its membership was contingent on conference developments. The Bangkok government thus was probably preparing the way for its demands at the conference and was trying to counter accusations by Peiping that it was a puppet in relation to the United States.

Thailand is expected to be dissatisfied with any but the strongest possible military guarantees. It would probably like to see these take the form of a tangible defensive organization, along NATO lines, with a military staff and a standing army. Thai officials, cognizant of their country's exposed position to a possible Communist drive southward, are equally aware that their strong pro-Western orientation has left them little room for political maneuver.

The Philippines is also expected to take a strong stand at the conference for a NATO-type organization. Failure to obtain this, together with other publicized "conditions," such as an unequivocal declaration of the right of Asian self-determination, will play into the hands of President Magsaysay's political opponents. However, these elements have several times in the recent past been vociferous in objecting to Philippine participation without strong American assurances of a commitment in the event of aggression.

Much publicity is now being given by the Philippine press to the government's view, subscribed to also by the opposition, that what is needed is a general declaration for the Pacific and Southeast Asian area against any form of imperialism and colonialism. Pursuance of this line at the conference would probably be distasteful to France and Britain. At best, the government's agreement to any pact which does not include the Colombo powers will be exploited by the opposition as another instance of undesirable American initiative in Asia.

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Statements by Prime Minister Menzies indicate that Australia may be willing to commit military forces to a regional defense organization, a departure from previous policy. In contrast, New Zealand's prime minister has hedged on the question of military commitments and policy decisions prior to the talks. Disagreement within the government is evident, however, with the defense minister trying to counter general complacency with public remarks regarding New Zealand's vulnerability and the need for possible additional defense expenditures under SEAP.

Britain and France appear to prefer a comparatively loose arrangement calling for consultation in the event of an act of aggression. London accepts the value of a mutual security arrangement primarily in terms of the psychological deterrent it would be to further Communist aggression. Paris too, favoring this concept, wishes to avoid prior commitment in Southeast Asia. Britain's attitude is unlikely to alter unless at some future date the pact includes the Colombo powers; the British government appears to believe that without this broad membership the pact might be of dubious value.

Pakistan, the only Colombo power attending, has apparently been too preoccupied elsewhere to develop firm views on the nature of SEAP commitments. As it could not, in any event, make more than a token contribution to troops or materiel, Pakistan is unlikely to press for definite commitments.

The question of extending the pact's protection to nonmember nations, in particular Laos and Cambodia, may also prove troublesome. The British chargé in Phnom Penh believes his government maintains that unwritten assurances of the "neutralization" of these two countries have been given Peiping.

The clearest statements favoring an emphasis on economic provisions have come from Australia and the Philippines. Canberra's minister for external affairs has observed that Southeast Asian security depends not alone on military forces but on sound economies, and that this is an important point in Australia's approach to a defensive pact. The Philippines has indicated that at the conference it will stress economic assistance to combat the internal threat of Communism. Other Countries are expected to follow these leads in the expectation of a greater contribution by the United States to the economic needs of the area.

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**SECRET****CURRENT BRITISH ATTITUDES TOWARD COEXISTENCE IN EUROPE**

Current British attitudes toward "coexistence" in Europe reflect an unstable mixture of sentimental devotion to the distant ideal of an enduring East-West peace and specific diplomatic efforts aimed primarily at securing the defense of Western Europe as soon as possible. Churchill's continued interest in a top-level East-West meeting, the widespread anxiety over the hydrogen bomb, Southeast Asian developments and German rearmament, as well as the interest in more trips and trade across the iron curtain, have all led to an atmosphere of hopefulness which tends to hamper the Conservative government's efforts to help consolidate the strength of the Western alliance.

Churchill, who fathered the "master thought" of an East-West mutual security pact for Europe, enjoys widespread public support for his desire to meet with top Soviet leaders.

Fear and even hysteria about the hydrogen bomb have exercised the British public since March, and the American embassy in London reports that the H-bomb also exerts an increasing influence on official British thinking. Attacks on the United States as a more likely aggressor than the Soviet Union have been renewed, especially by left-wing elements.

Foreign Secretary Eden emerged from the negotiations at Geneva as a hero in the eyes of the government, the opposition, and the general public. On 23 June he suggested the possibility of a Locarno-type pact for Southeast Asia, and he has made one of the rare official British utterances using the specific words, "peaceful coexistence."

The Labor Party's debate over its official endorsement of EDC has revealed a growing sentiment in Britain against rearming West Germany at all. Although Britain has agreed to take steps to restore West German sovereignty, it has not accepted any timetable for negotiations on West German rearmament.

The Labor Party delegation's trip to Peiping by way of Moscow and planned visits by other British delegations to China, the USSR, and Poland have all been widely construed as semi-official endorsements for British efforts to promote coexistence.

The new COCOM control lists will permit the immediate export of \$14,000,000 worth of hitherto prohibited goods from Britain to the USSR. The Financial Times states that there

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have been new Soviet orders worth \$28,000,000 since 16 August, and that the present total of unlicensed orders for British goods is about \$84,000,000.

Nevertheless, the actual positions taken by the government remain in accord with the logic of Britain's strategic posture and in contrast with surface indications of softness. This is true despite the tendency of British politicians to cater to popular sentiment favoring relaxation of international tensions at almost any cost.

British officials have noted frequently since May 1953 that the Soviet Union has ignored Churchill's plea for top-level talks, and has not shown any disposition to make genuine concessions which would help establish the prerequisites for a Locarno-type treaty.

The Foreign Office draft reply to the Soviet demarches of 24 July and 4 August rejects the idea of an East-West meeting and invites the Soviet Union to take concrete actions toward solving the problems of Germany, Austria, and disarmament. The British do not want further East-West conferences at this time and particularly before final action on EDC.

Indochina was not regarded as a vital British interest; Western Europe is. The British attach critical importance to a West German defense contribution. During the Anglo-American discussions on restoring West German sovereignty, the British presented a tentative formula for restricted German membership in NATO at some unspecified date.

Attlee's decision to go to Peiping was based largely on his realization that otherwise he would have to counteract the effects of a pilgrimage by Bevan and other left-wing Laborites, whom Peiping invited in the first place. There has been sharp criticism by Laborites of the Attlee trip, and an invitation which subsequently came from East Germany is likely to be rejected.

On East-West trade, British commerce with the European Orbit countries is likely to increase, but trade figures for the first six months of 1954 belie much of the talk emanating from both London and Moscow about a great expansion. Britain has exported \$48,000,000 worth of goods to the Orbit, an increase of about \$7,000,000 over the first six months of 1953. British imports are valued at \$81,000,000, about \$3,000,000 more than last year.

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Top government officials have stressed their "complete devotion" to the Anglo-American alliance and the need for safeguards to guarantee coexistence with the USSR. They have also spoken of the political necessity of appearing "more independent."

Until about the time Churchill and Eden made their visit to Washington in late June, British newspapers were cataloguing Anglo-American differences and making much of the superficial resemblance between views held by Churchill and Aneurin Bevan on peace, disarmament, and American leadership. Ever since, however, these papers have been stressing the essential identity of Anglo-American aims in international affairs.

As Churchill has emphasized, the British see no incompatibility between urging both sides to recognize the desirability of an armed peace over a nuclear holocaust and at the same time bending every effort to strengthen the security of the home islands, the Commonwealth, and the Atlantic alliance.

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**AUSTRIA MAY FAVOR ACCEPTANCE OF SOVIET PROPOSAL  
FOR TREATY TALKS**

The Soviet note to Austria on 12 August proposing five-power state treaty talks in Vienna has kindled skeptical interest in official Austrian circles. Though hope for an early treaty is faint, both government parties would probably resent a flatly negative Allied reaction prior to further clarification of Soviet intentions. Government officials meanwhile are reluctant to offend the USSR by having the Austrian question submitted to the UN General Assembly as proposed by the Western powers.

The Soviet note was in reply to the Austrian proposal of 23 July--since accepted by the other three occupation powers--for a five-power conference on alleviating the occupation. The Austrians probably are pleased with the results of their diplomatic enterprise: not only have the Western powers agreed to accept Austria as a conference partner on matters heretofore reserved to the Allied Council, but the USSR has accepted, in principle, full Austrian participation in treaty discussions.

Actually, however, the Austrians probably expect little from the Soviet Union but a repetition of the Soviet proposals, first made at the Berlin conference, for a state treaty without the withdrawal of occupation troops.

The Vienna government is committed to the task of keeping the Austrian treaty question alive, however, and cannot afford to reject the Soviet proposal out of hand. Chancellor Raab has continued to repeat his public demand that all occupation troops be withdrawn and has stated that the government will undertake an active program to end the occupation this fall.

Austrian officials have said that a reply to the Soviet proposal is unlikely before the end of August. A reply requesting further clarification is possible. More likely, however, Vienna will seek such clarification informally and consult with the Allies before making a formal reply.

If convinced that the USSR would stick to its Berlin proposals, the Austrians will probably follow Western advice to reject the suggestion for a new conference. If the USSR gives the slightest indication of flexibility in its position, however, the Austrians will probably favor acceptance of the proposal.

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**SECRET****CHINESE NATIONALISTS SEEK FURTHER AMERICAN SUPPORT**

Confident of continuing American support, the Chinese Nationalists have remained calm in the face of recent Chinese Communist threats to "liberate" Formosa. The new Nationalist administration, like its predecessor, is pursuing policies designed to ensure that such support will be retained and, if possible, increased.

Nationalist equanimity unquestionably derives from the American commitment to protect Formosa and the nearby Pesquadores against Chinese Communist attacks. The Nationalists were pleased by President Eisenhower's reaffirmation of this commitment on 17 August and by the visit of elements of the American Seventh Fleet to the Tachen Islands, a few miles off the East China coast, on 19 August.

The Nationalist cabinet which took office on 1 June was selected with an eye to American approval, and it has taken steps to counter the unfavorable publicity resulting from former governor K. C. Wu's denunciations of Nationalist China as a "police state."

An effort has been made to make the Formosa government appear less authoritarian, and the rise of the authoritarian faction in Taipei has been checked for the time being. Chiang Ching-kuo, who has been subject to considerable criticism as the moving force behind authoritarian elements on Formosa, does not have a post although he remains a power behind the scenes. The new administration is moderately conservative and has adopted the motto "Progress through Stability."

Taipei has continued to press for the conclusion of a mutual security pact with the United States and has sought to bring the Nationalist-occupied offshore islands under United States protection. The Nationalists submitted a draft of the proposed pact to the American embassy in Taipei last December and have since repeatedly urged American acceptance.

Closely connected with this effort is the Nationalists' call for a northeast Asia security organization patterned after NATO and including Nationalist China, South Korea, Japan and perhaps the Philippines. The Nationalists argue that a series of bilateral treaties between the United States and the governments involved could later be transformed into a multilateral alliance.

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The Nationalists' interest in the bilateral pact and the regional organization reflect a wish to bind the United States as firmly as possible to their cause, both immediately and in the future. Although "back-to-the-mainland" talk is one of the psychological warfare devices with which Taipei is meeting the current Communist threats, the Nationalists have by no means given up their hope of an eventual attempt to recover some part of the mainland with American military backing.

Nationalist efforts to harass the Peiping regime reflect this same objective. Taipei's most notable action along these lines has been the seizure of Soviet bloc merchant vessels, which since 23 June has caused a disruption in Communist China's trade. The Nationalists are well aware that in seizing these vessels, one of which is still being held despite American urging that it be released, they are risking a Communist counteraction which would have to be met with American military force.

Taipei is now seeking American support for dealing with the question of China's seat in the United Nations, on which the Nationalists face a difficult test this fall, as a substantive rather than a procedural matter. This approach might well result in a diplomatic defeat for Formosa and the United States. While it is not likely the Communists could muster the necessary two-thirds vote required to unseat the Nationalists, the vote might be close enough to show the weakness of the Nationalist position.

American efforts to secure support for the Nationalists in the event of a substantive vote might further alienate the Western allies from the United States. It is likely that Taipei would accept a decline in its international stature if at the same time it were assured of close ties with the United States.

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~~SECRET~~Special Article**SOVIET BLOC TRADE WITH THE NON-COMMUNIST WORLD:  
PROMISES, PERFORMANCE, AND PROSPECTS**

Undaunted by delays in meeting the terms of many of their present trade agreements with the non-Communist world, the Soviet bloc states have lately been pressing hard to extend their international economic relationships. In addition to calling for more trade agreements with Western governments, Orbit governments--with the USSR in the lead--have encouraged visits by Western businessmen, have been conspicuously represented at international trade conferences and fairs, and have offered technical aid and assistance to the underdeveloped countries.

These moves are consistent with the bloc's aims in foreign policy: to divide the United States and its allies and to forestall arrangements for the collective defense of the non-Communist world. Consumers' goods imports at a rate well above the normal for the postwar period have provided the Soviet propagandists material for presenting the Orbit states as peace-loving trading partners, genuinely interested in easing international tension.

Approaches to non-Communist Governments

In recent discussions with Western governments, the bloc states have attempted to promote an atmosphere of relaxation through improved economic relations. After nearly a decade of obstructionism, the USSR has finally promised to compensate Iran for a World War II obligation, and several of the Satellites have displayed a serious interest in discussing methods of settling debts with West European governments. At both Berlin and Geneva, Soviet representatives reminded European diplomats of the attractions of East-West trade when political discussions seemed stalled. In one noteworthy case--the latest Soviet-Finnish trade agreement--the USSR succeeded in wedding a joint statement on political objectives to the announcement of the commercial agreement.

Approaches to Private Groups

Business groups in Western Europe, anxious to develop new markets and apprehensive about prospects of selling in a protected American market, have lent eager ears to statements that increased trade with the East provides a panacea for

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Western economic ills. The effect of this device, following the USSR's specific bids to West European business delegations early this year, has been clearly reflected in the recent COCOM negotiations which resulted in a drastic reduction of Western export control lists. The direct approach tactic is also being used toward West German and Japanese business groups, with the apparent objective of encouraging neutralist sentiment in those countries.

Perhaps encouraged by this success, the USSR has employed a similar technique in its latest approaches to the under-developed countries. With an eye to mobilizing an influential core of local supporters for Soviet-sponsored technical assistance, Soviet leaders have invited Asian and Latin American governments to send specialists to visit agricultural and industrial installations in the USSR. Six Asian nations and one Latin American state have already responded favorably to this invitation.

#### Trade Performance in 1954

The USSR has stepped up its commerce with the non-Communist world in the first quarter of 1954 by more than 70 percent above the level of the corresponding period last year. Even so, Soviet traders have fallen slightly behind their pace of the last quarter of 1953 when Soviet foreign trade emerged from the doldrums of the first three quarters of the year. In spite of the demands of the post-Stalin economic program upon the most marketable Soviet exports, it now appears that the USSR is headed for its best postwar trading year (see table 1, p. 21).

For the bloc as a whole, however, the increase in East-West trade for the first quarter of 1954 is less impressive. Most of the rise in turnover, which is about one-sixth greater than that recorded in the first quarter of last year, is accounted for by the USSR. The trade of the East European Satellites has risen slightly, but China's trade outside the bloc is lower than in 1953. Nevertheless, both China and the East European states have been able to maintain a modest export surplus (see table 2, p. 21).

Thus far this year, the Soviet Ministry of Foreign Trade has been more successful as a buyer than as a seller. While imports from the West in the first three months of 1954 have been valued at more than \$150,000,000, Soviet exports reached only about \$110,000,000. To close this gap, the USSR continued to export gold to the West at well above the normal rate.

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As a result of large Soviet purchases of meat and wool, Australia was second only to Finland as the USSR's principal non-Communist supplier in the first three months of 1954. Since then, however, Soviet retaliation following the Petrov defections has interrupted further purchases. Official trade returns are not yet complete for several Latin American countries, but it is already apparent that Soviet imports from Argentina and Uruguay have risen sharply this year.

In only two instances of importance was the recorded trade of a Western nation with the USSR less in the first quarter of 1954 than in the comparable 1953 period. Soviet trade turnover with Iran fell by more than one third, and Soviet imports from Sweden were somewhat reduced although exports to Sweden rose considerably.

#### Outlook for the Remainder of 1954

Despite this performance, the bloc is a long way from asserting itself as the major trading power pictured in its propaganda. It is still recovering from the trade setback it underwent just prior to and following Stalin's death. For the remainder of 1954--as the USSR reaps the benefits of the record number of trade agreements it negotiated last year and of the 16 August reduction in COCOM controls on Western exports--its trade with the West may be expected to rise beyond the 1952 high-point. The Satellites, which have lagged well behind in negotiating new trade agreements in the West, will probably register a small expansion over last year.

#### Longer Term Trade Prospects

No sensational upsurge in bloc international commerce is likely in the next few years. The principal limiting factor is Soviet unwillingness, in face of increasing domestic requirements, to expand the export of the agricultural products which in the past have provided the USSR's most dependable source of foreign exchange. The East European Satellites, heavily committed to domestic economic programs, face similar problems in increasing the volume of exports.

For example, Soviet grain exports to the United Kingdom, formerly a major customer, fell in 1953 to ten percent of the 1952 value of over \$100,000,000 and there has been only the slightest recovery thus far in 1954. This situation may be eased considerably in the next two years if the Soviet attempt to expand grain production through the reclamation of virgin lands proves successful. In the interim, the USSR has been

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obliged to push volume sales of an alternative line of exports--petroleum, manganese, chrome, platinum, silver, and gold--to finance its increasing volume of imports.

Although Soviet traders have cut some prices below the world market in their efforts to negotiate contracts in the West, the USSR now appears likely to fall short of fulfilling some of its present trade agreements. Moreover, it is currently a heavy debtor in its clearing accounts with Greece, Italy, Argentina and Finland. In France, the Soviet trade obligations reached such proportions last February that the USSR paid dollars to the Bank of France in order to bring the deficit within manageable bounds. Soviet delivery difficulties also required payments of dollars and pounds sterling to Sweden last May. In the case of Finland, a country with which the USSR has had a persistent trade deficit, the USSR has formally recognized that its delivery problem is not temporary by agreeing to liquidate a portion of its anticipated annual debt in Western currencies.

This record, the reverse of the propagandists' assertions, is gradually dampening the enthusiasm of some Western commercial circles over prospects of the Orbit as a market. Significantly, even official Soviet spokesmen at international trade conferences have dodged questions on the form in which the USSR is prepared to compensate Western traders for the stepped-up volume of imports. Growing experience with the USSR as a trading partner may further persuade Western governments and traders that the Soviet Union faces difficulties in providing acceptable exports in sufficient volume to finance increasing imports.

#### Trade Agreement Negotiations

Nevertheless, the 1954 Soviet performance in trade agreement negotiations has been impressive. Soviet negotiators have signed the first formal agreements with Lebanon, Egypt, and Uruguay. In addition, several sets of renegotiations were successfully concluded. The renewed agreements with Finland, Iceland, and Afghanistan foreshadow an enlargement of Soviet commercial influence in these countries. Annual negotiations with the Netherlands, Belgium, Norway, Sweden and Argentina have been completed, most of them calling for a two-way trade expansion. But the recent renewal with Iran, virtually a repetition of last year's ambitious outline of a fourfold expansion of Soviet-Iranian exchanges, may have no more significance than the 1953 agreement, under which the volume of trade actually fell below the level of 1952.

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These achievements, however, must be balanced against Soviet failure in two sets of trade negotiations. Discussions on the renewal of last year's agreement with Denmark were broken off in July, primarily because of Soviet insistence on two Danish tankers as the price of a new agreement. In trade talks with Burma, the uncompromising Soviet demand for the right to deal directly with local firms led the Burmese authorities to interrupt conversations and threatens the success of the recently resumed discussions.

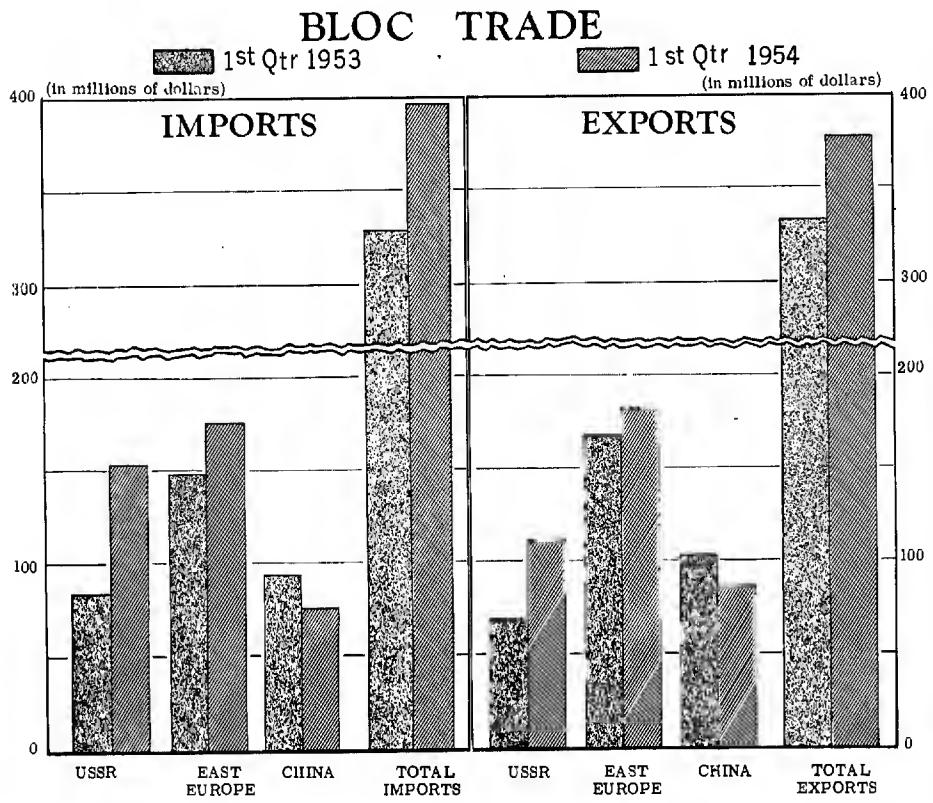
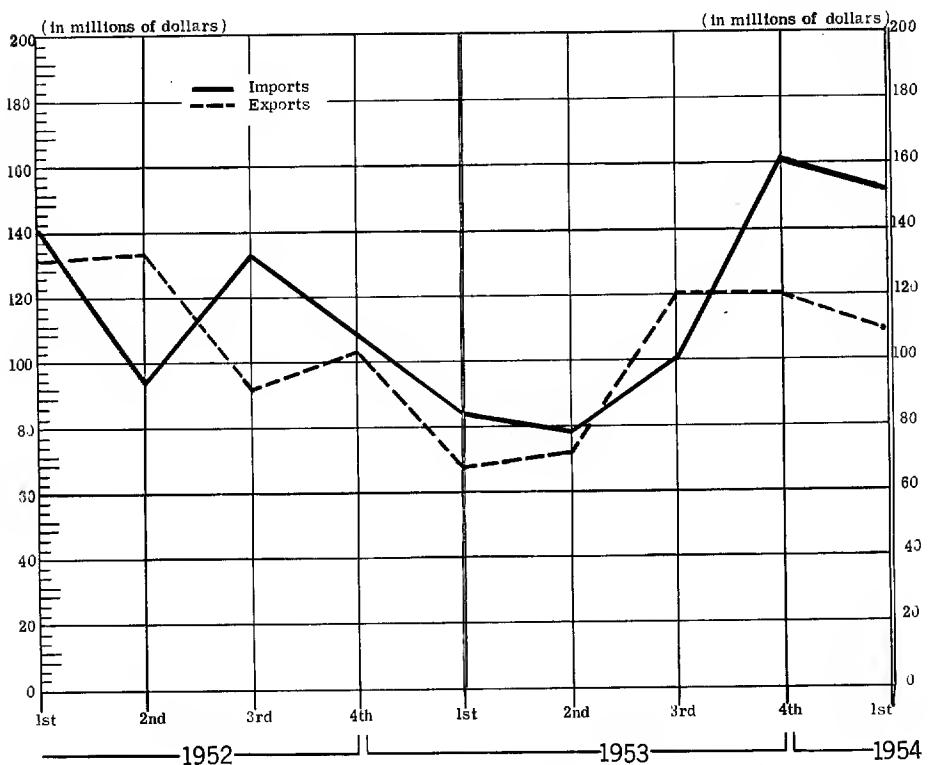
#### Future Trade Policy

To put the best face possible on their limited export capabilities, the makers of Soviet trade policy are likely to push three courses of action in the immediate future. Exports of gold and precious metals will probably continue to exceed the normal rate of shipment of the past few years, thus providing minimum foreign exchange requirements. Simultaneously, the USSR will probably press vigorously to market those commodities which it can export in volume, resorting to price cutting and diplomatic pressure when necessary. Diplomatic pressure will be especially useful in attempts to market petroleum in non-Communist countries where the petroleum storage and distribution facilities are controlled by American and British firms. Soviet demands for access to these facilities have already proved successful in Egypt and are now being considered in Denmark and West Germany.

Finally, the USSR will probably step up its economic relations with the underdeveloped countries. Not only can its trade and assistance gestures to these areas of the world be turned to maximum propaganda advantage, but the strain of such a program on the Soviet economy would not be serious. In the coming months, the USSR will probably attempt to broaden the geographical scope of its technical aid and assistance gestures. While these moves may be accompanied by the widest publicity, the scale of the Soviet offers is likely to remain relatively modest.

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## USSR TRADE WITH NON-COMMUNIST COUNTRIES



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